

Wealth Creation

Mr. Nilesh Shivratan Dave

Shri G. P. M. Degree College, Vile Parle (E), Mumbai, Maharashtra, India

Abstract: *Wealth creation is the process of investing your saved money to grow your wealth by choosing investments that align with your financial goals. Wealth creation is important for achieving financial security, improving living standards, and reducing poverty. Wealth creation can be influenced by various factors, such as economic freedom, economic integration, culture, and sustainability. Here is a short summary of some of the main ideas from the web search results:*

A rich concept of wealth creation beyond profit maximization and adding value: This article argues that wealth creation should include physical, financial, human, and social capital, encompass private and public wealth, account for its production and distribution, recognize its material and spiritual side, and place wealth in the time horizon of sustainability.

The wealth creation approach to poverty reduction: This book suggests that economic freedom and economic integration are important in creating the wealth needed for substantial and sustained reductions in poverty. It also discusses the challenges and opportunities for wealth creation in different regions of the world.

Culture and wealth creation: Evidence from world stock markets: This paper shows that countries with more individualistic, less uncertainty avoidant, and less masculine cultures show advantages in stock market wealth creation. It also examines the implications of cultural differences for international diversification and portfolio management.

Keywords: Wealth creation

I. INTRODUCTION

Wealth creation is the process of investing your saved money to grow your wealth by choosing investments that align with your financial goals. Wealth creation is important because it can help you achieve your dreams, secure your future, and make money while you sleep. Some of the key factors that influence wealth creation are patience, time horizon, taxation, compounding, and volatility. To create wealth, you need to start early, set realistic goals, diversify your portfolio, and seek professional advice when needed.

If you look at the dictionary meaning of wealth, it is abundance. When you talk about wealth with respect to money it means an abundance of money and wealth creation focuses on making this abundance a reality. For you and me, wealth can be defined as the sum total of assets we own, be it real estate, cash, gold, stocks, mutual fund units, etc. after deducting any liabilities such as outstanding loans.

But wealth is also a relative term. Whether an individual is wealthy or not depends on the benchmark we set for ourselves based on our dreams. So, you may call yourself wealthy if you have enough to fulfill all your dreams. For example, you might dream of owning an apple orchard in Shimla or a 4-BHK flat in South Delhi. Achieving these dreams would require a substantial amount of wealth. So, if you don't have enough wealth to fulfill these dreams, you have to focus on growing your wealth, to get closer to achieving your financial goals or dreams.

In this blog, we will discuss what wealth creation actually means, its importance, and some strategies that can help in the successful creation of wealth.

WHAT IS WEALTH CREATION?

One cannot create wealth by just earning more money. You have to invest your savings to create a parallel stream of income. This process of investing your saved money to grow your wealth by choosing investments that align with your financial goals is called wealth creation.

For sufficient wealth creation, apart from choosing the right investment, you also have to give your investments sufficient time to grow. You need to maximize the benefit of compounding by investing as early in life as possible. Early starters have the opportunity to stay invested longer, which makes it easier for them to reach various financial goals.

Another way to ensure you achieve your wealth creation goal is to increase your investments in line with the increase in your income. If you are a salaried person, you would get an annual increment. If you increase your monthly investments by the same proportion as your annual increment every year, you will be able to save significantly more. After all, how much you invest matters more than your returns especially when you are starting your investment journey.

As the type of goal and time horizon varies from one individual to another, there is no single guaranteed way to create wealth. For example, if you are investing for the long term, equity-oriented investments are more suitable as compared to Debt-oriented investments. On the other hand, Debt and Hybrid Mutual Funds are more suitable for short and medium-term investment goals.

Wealth creation refers to building wealth through a variety of methods using financial products. When you invest in financial products for a long period, you get back higher returns. Hence, it is an essential part of your financial journey in order to achieve all your long-term financial goals like your dream house, your child's education, and much more.

HOW CAN YOU ACHIEVE YOUR WEALTH CREATION GOALS

At any given time, you might be working towards achieving multiple financial goals. Not all of these will be long-term goals like retirement. You might need to reach some goals like saving for a new car or downpayment for a new house much sooner. Depending on how near or far in the future a particular goal is, your risk-taking ability for different goals will vary. As a result, you cannot rely on a single investment strategy to ensure that you stay on track to achieve all of these goals. So, you will need to implement different wealth creation strategies that are customized to each financial goal.

ET Money Genius membership allows you to select from 6 customized investment strategies that are best suited to achieve various financial goals with ease. As a Genius member, you no longer have to manually select individual investments or figure out how to rebalance your investments periodically to generate optimal risk-adjusted returns.

Based on the portfolio strategy you choose, your investments would comprise a basket of Index, Gold, and Debt Funds or stocks and ETFs that diversify your investments across domestic Equity, Debt, International Equity, and Gold. The optimal allocation of your investment portfolio will be automatically determined by ET Money Genius algorithm based on your wealth creation goal. This way you no longer have to put in any time or effort to choose investments and determine the ideal asset allocation mix to reach your wealth creation goal.

Since your portfolio allocation to different asset classes cannot remain static, the Genius algorithm will use dynamic and strategic asset allocation strategies to time your entry into and exit from different investments through one-tap monthly rebalancing. The periodic change to your investment portfolio depending on different market conditions will ensure you are ideally placed to generate optimal returns while controlling the potential downside during market drawdowns.

CHALLENGES IN WEALTH CREATION

Wealth creation process can have several challenges. Below are some things to be wary of:

Instant Gratification:

It is important to prioritise long-term wealth-building over short-term wants. A lot of people give in to their impulses and spend money on non-essential items. This can hamper your ability to save for the future and the potential to increase savings. It is crucial to adopt a disciplined and consistent approach to wealth creation. This can be done by avoiding instant gratification and instead focusing on the long-term goal.

Market Volatility:

Market fluctuations, such as sudden price movements, can impact your investments. They can also lead to impulsive investment decisions made out of panic and fear. Following a well-crafted wealth creation plan that focuses on portfolio

diversification and risk management is important. Additionally, you must periodically rebalance your portfolio to lower the impact of market volatility.

Lack of Financial Literacy:

Understanding basic financial concepts and investment instruments can help you speed up your wealth-creation journey. Financial literacy helps you make informed decisions, avoid financial scams and make careful investment decisions. Remember to invest time in educating yourself. Understand the importance of budgeting, tax planning and savings on your long-term financial well-being. You may also reach out to a professional financial advisor for assistance.

Overleveraging:

Taking on too much debt or excessive risk in pursuit of wealth creation can lead to financial challenges. Overleveraging, such as taking on too much debt or adding high risk to your portfolio, can stall your financial progress and can jeopardise your financial security during market downturns.

Try to strike a balance between risk and reward. You must also be careful when using debt and assess the associated risks.

IMPORTANCE OF WEALTH CREATION

Wealth creation is the process of investing your saved money to grow your wealth by choosing investments that align with your financial goals. It is important for several reasons, such as:

It provides you with money to fulfil your future goals, such as buying a house, funding your child's education, or retiring comfortably.

It offers a steady flow of income even when you are no longer employed or working, which can help you maintain your lifestyle and cope with emergencies or economic downturns.

It enables you to achieve financial independence and security, which can give you more freedom and choices in how you want to live your life.

Some strategies that can help you in wealth creation are:

Start investing early and regularly, to take advantage of the power of compounding and accumulate more wealth over time.

Increase your investments in line with your income growth, to save more and reach your goals faster.

Diversify your portfolio across different asset classes, such as equity, debt, gold, etc., to reduce your risk and optimize your returns.

Choose a suitable wealth creation plan that matches your risk appetite, time horizon, and objectives. For example, you can consider investing in a unit-linked insurance plan (ULIP) that offers both life cover and market-linked returns.

PRINCIPLES TO GROW YOUR WEALTH AND INCOME OVER TIME

Extra time and money need to be reinvested:

On a recent trip to Seattle I talked to my Uber driver between SeaTac and downtown Seattle. The conversation ranged from travel, our favorite islands in Hawaii, his love for music and gadgets, what he does for work, and why he's driving for Uber on the side.

He has a solid career working downtown for the City of Seattle and Uber allows him to earn a little extra on the side driving a couple mornings a week. It's fantastic that services like Airbnb and Uber allow those on with a set salary to earn more on the side.

So what was he spending this extra money on? Well, he loves gadgets and wants two things:

To replace a broken speaker in his home theatre system.

To buy a DJI Mavic drone.

Those are both super fun purchases and it's great he's able to work extra to make those happen. But it reminded me of why most people don't build wealth: increased earnings never go into wealth.

You can skip ahead, but you still have to learn the lessons from each step:

At ConvertKit we run one of the largest affiliate marketing programs of any SaaS company, bringing in nearly half a million dollars in revenue each month. But it's a pain. None of the software available to manage these systems works well and as a result we spend at least one day a month doing manual work.

My brother-in-law, Philip, saw this manual work and decided to build a better platform for SaaS companies to run affiliate programs. His new tool, called LinkMink, is gaining traction, but still early. After working on it for nearly two years he can't help but feel frustrated he and his co-founder are only at a couple thousand a month in revenue.

I can relate to this. 2 years into starting ConvertKit we were at the same level. It sucks how slow SaaS can be.

But then I started thinking about Philip's path. He's got a bachelor's degree in business, has worked as a designer, then as a software developer. Then he started working on LinkMink.

His path has been:

Hourly work for a company (in a wide range of jobs as anyone joining the workforce has)

Salaried work at a company (both as a designer early on, then a web developer)

Okay, so far this is great. On our income-earning ladder he has gone from the first rung to the second and done it quite quickly. In just four years going from an entry-level position to a fantastic salary.

Apply your existing skills in a new way to build wealth:

My friend Patrick bought a house that needed plenty of work and immediately dove into renovating it himself. Since he works construction full-time he was well equipped with the skills to transform this fixer-upper.

But the real magic and value wasn't in the main house, which he is remodeling for his family, but in a detached 1-car garage that is accessible from the back alley. Originally this building was so run down that you wouldn't even park a car in it, but after 6 months of work on nights and weekends Patrick renovated it into a beautiful little 300 square foot studio apartment.

Just a couple hours after listing it for rent on Airbnb he had his first booking. His first month booked up immediately generating over \$1,800 in revenue. When combined with his job working on a construction crew, this new revenue stream was a 50% increase in his monthly earnings.

There's a difference between working for a higher wage and truly building wealth:

While I love working on the computer and creating digitally, often I want an escape from that and to see projects come together in real life. Like many people I've been fascinated by tiny houses for years, so this year I decided to pull the trigger and build one myself. While it's been a lot of learning and quite challenging at times, the break from sitting in front of a computer to start creating in real life has been so rewarding.

Since I'm a complete novice when it comes to home building, I've relied on experienced friends like Patrick for the trickier parts, such as installing a double-swing french door.

After finishing his own tiny studio and helping me build my tiny house Patrick said, "Maybe I should quit my construction job"—which is something he's wanted to do for a long time—"and build tiny houses for other people."

Because Patrick actually has a solid footing on a much more advanced ladder: selling products. His Airbnb is selling a product into an existing marketplace. He's making money while he sleeps! So instead of using his time and skills to create another hourly or project based income source, he should build a tiny house for himself, put it on Airbnb, and double his product revenue.

Use an earlier rung on the ladder to fund the next one:

The one downside to jumping ahead is that it often costs money before you will get money back. Because he did all the work himself, Patrick's studio renovation only cost about \$10,000. While it's a great return, \$10,000 is a lot to come up with!

In the same way Patrick's biggest obstacle to running another airbnb unit is actually initial capital to get started through buying land and building materials.

That's where the early rung on the ladders can help. You might stay at your software job longer to stockpile savings to fund your living expenses longer, or you might pick up extra shifts as a bartender to help save for your next set of building materials (which is

WHEN IS IT WORTH IT TO WORK FOR A WAGE?

You may have heard the quote, "you shouldn't trade time for money." While true that there are better ways to build wealth, early in my career I found that advice quite discouraging. That was the only way I knew how to make money and apparently it was wrong!

You should trade time for money, especially early in your career when it's the only option available with your current skill set. So rather than writing off entire methods for earning a living, let's break down five examples of when you should trade time for money:

When you are just getting started. Early in your career, the important thing is to make enough to pay rent and buy groceries. Don't look down on any job that allows you to do that. Once you have a stable foundation you can start to pursue better opportunities.

When you are learning a new skill. If you can get paid to learn a new skill that will grow your earning potential you absolutely should! Let's say I want to be a YouTuber and are just getting started. Working as a camera assistant for an ad agency would be a great way to learn more about cameras and video while still paying rent.

As a step in getting to a higher rung or on to the next ladder. It always takes time, money, or both to move to a higher rung on the ladder. If you spend conservatively and save any extra money you can have enough to buy the tools, training, or time necessary to get to the next level.

To build relationships and find mentors. The right people will shape your mindset and opportunities. You should absolutely trade time for money if it means expanding your network to people who can help you jump to the next ladder.

When the work is rewarding and meaningful in its own right. If you found work that you find meaningful and fulfilling, you should do that. Even if some expert says you shouldn't trade time for money. A lot of money is far from the only kind of wealth.

The most important thing is that you aren't just treading water as you work for a wage. As much of that money as possible should be saved and invested to help you jump to the next ladder.

Moving between ladders often means a decrease in income:

I hope this has been helpful and inspiring so far, because I'm about to hit you with some bad news: while income increases as you move up any one ladder, it often decreases when you jump between ladders. Sometimes that drop may be only for a few months, other times it could be a few years. Let me give you an extreme example.

In 2013 I earned over \$250,000 from selling books and courses on design. My income had been steadily increasing for the last few years and I was damn proud of my blog and business. But then I decided to make the leap and switch from selling ebooks to starting a software company—one of the most difficult rungs on the product ladder.

IT DOESN'T HAVE TO BE ALL OR NOTHING

You can start your blog while still helping freelance clients. Build the habit of writing while you still have your full-time job. Or do what I did and use book and course revenue to help fund building a software company.

A side project is an incredible way to bridge the gap and cover the dip as you move between ladders. Just one note: I said, "a side project" not "side projects."

Each step is easier with an audience:

While the dip is always going to be frustrating, imagine that instead of making the leap alone you had dozens, hundreds, or even thousands of people cheering you on at each stage. Each person enjoying hearing about your journey and eager to help you make the next step.

That's exactly what I did when I made the jump from selling ebooks about design to starting a software company: I talked about the entire journey through what I called The Web App Challenge. A public challenge to build a customer-funded SaaS product from scratch to \$5,000 in recurring revenue in six months.

To follow your journey, they will. Some will buy your products, others will tell their friends, and still more will cheer you on.

An audience is actually easier to build than we make it seem:

Have a goal. The goal could be to make your first sale at a farmers market, write a book, renovate an airbnb, pay off your debt, landing your first four design clients, or just about anything else. The point is for it to be clear who you are and what you are trying to accomplish.

Document your progress. This next step is a little harder—not because it’s difficult to document progress, but because it’s difficult to do consistently. Choose a cadence and write updates reminding people of what you are trying to accomplish and sharing your progress, learnings, and challenges on that journey. That could be through a monthly blog post or even just through more regular Instagram posts.

Ask for help. Finally, understand that everyone wants to help, so let them! If you need advice on how to price your products or how to setup your business, just ask. If someone in your small audience doesn’t know, they most likely know someone who does. Throughout my journey I’ve been blown away by how many people step up with advice, introductions, and support whenever I’ve asked.

So as you plan your next big step to build wealth I encourage you to set a clear goal, share it publicly, and give your community the opportunity to rally behind you and make it happen.



II. CONCLUSION OF WEALTH CREATION

Wealth creation is the process of investing your money in different asset classes that can help you achieve your financial goals and dreams. It involves strategic planning, disciplined saving, and choosing the right investments that suit your risk profile and time horizon. Wealth creation also requires starting early, increasing your investments regularly, and staying invested for the long term to benefit from the power of compounding. By creating wealth, you can enjoy financial independence and security, and fulfill your short-term, mid-term, and long-term needs.

Wealth creation is a multifaceted process influenced by various factors and strategies. While there is no one-size-fits-all conclusion, some key principles and considerations can be drawn to guide individuals in their pursuit of building wealth:

Financial Education: Continuous learning about financial concepts, investment strategies, and economic trends is crucial. Knowledge empowers individuals to make informed decisions and navigate the complexities of wealth creation.

Budgeting and Saving: Building wealth often starts with effective budgeting and disciplined saving. Creating a budget helps manage expenses, allocate funds for savings and investments, and avoid unnecessary debt.

Investing: Strategic and diversified investments can be instrumental in wealth creation. Individuals should consider a mix of asset classes, such as stocks, bonds, real estate, and other investment vehicles, depending on their risk tolerance and financial goals.

Entrepreneurship: Starting and scaling a business can be a powerful wealth creation strategy. Entrepreneurs have the potential to generate substantial income and build assets, but it comes with risks and challenges that require careful planning and execution.

REFERENCES

- [1]. <https://www.icicprulife.com/investments/wealth-creation.html>
- [2]. <https://scripbox.com/pf/wealth-creation/>
- [3]. <https://www.tatacapital.com/blog/investment-guide/wealth-creation-meaning-importance-and-strategies/>
- [4]. <https://www.etmoney.com/learn/personal-finance/what-is-wealth-creation-meaning-importance-and-strategies/>
- [5]. <https://www.investopedia.com/managing-wealth/simple-steps-building-wealth/>
- [6]. <https://www.etmoney.com/learn/personal-finance/simple-principles-for-building-your-wealth/>
- [7]. <https://www.forbes.com/advisor/investing/financial-advisor/how-to-build-wealth/>